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SUBJECT: KAZAKHSTAN TO STUDY PLANS FOR SAMSUN-CEYHAN PIPELINE

REF: (A) ANKARA 1592
(B) ASTANA 2005
(C) ASTANA 2007

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11. (U) Sensitive but unclassified. Not for public Internet.

12. (SBU) SUMMARY: Meeting in Yalta on November 20, Russian Prime Minister Vladimir Putin and Kazakhstani Prime Minister Karim Masimov witnessed the signing of a protocol to study plans for the construction of an oil pipeline between the Turkish cities of Samsun and Ceyhan. The pipeline could ultimately carry crude from Kazakhstan's largest oil fields, including Tengiz and Kashagan, from the Black Sea to the Mediterranean Sea, where it would effectively enter the world market. The agreement between Russia and Kazakhstan comes less than one month after President Nursultan Nazarbayev visited Turkey from October 22-24. During his visit, Nazarbayev announced that Kazakhstan and Russia are prepared to participate in the construction of the Samsun-Ceyhan pipeline, although questions remain concerning the equity structure, volume commitments, and transit tariffs of the proposed venture. END SUMMARY.

NAZARBAYEV'S VISIT TO TURKEY IN OCTOBER

13. (SBU) President Nazarbayev's visit to Turkey on October 22-24 highlighted the strong and growing cultural and economic ties between the two countries (ref A). An economic officer from the Turkish Embassy involved in preparations for Nazarbayev's visit told Energy Officer on November 20 that six ministers, dozens of business leaders, and local government officials accompanied Nazarbayev. According to Turkish Econoff, the delegation included Foreign Minister Kanat Saudabayev, Minister of Defense Adilbek Jaksybekov, Minister of Education and Science Zhanseit Tuimebayev, Minister of Industry and Trade Aset Isekeshiev, Minister of Information and Culture Mukhtar Kul-Mukhammed, Minister of Tourism and Sport Temirkhan Dosmukhanbetov, the Chairman of National Welfare Fund Samruk-Kazyna Kairat Kelimbetov, Almaty oblast governor Yesimov Akhmetzhan, and Astana oblast governor Imangali Tasmagambetov. Turkish Econoff said that Turkey and Kazakhstan signed a number of

cooperation agreements during the visit, including ones on science and technology, environment, tourism, education, and energy.

KAZAKHSTAN WILL SHIP GAS VIA TURKEY

¶4. (SBU) During his visit to Turkey, Nazarbayev acknowledged Turkey's important role as a transit country for Central Asian energy resources and underscored that Kazakhstan's oil and gas will flow through Turkey. Turkish Econoff said the Turkish government was particularly impressed by Nazarbayev's clear, unequivocal statement that both Kazakhstani oil and gas would transit Turkey, and reported that Nazarbayev specifically expressed Kazakhstan's support for the Nabucco gas pipeline to Europe.

FROM BAKU-CEYHAN TO SAMSUN-CEYHAN

¶5. (SBU) Addressing the Turkish parliament on October 22, Nazarbayev announced that Kazakhstan and Russia are prepared to take part in the construction of the Samsun-Ceyhan oil pipeline. According to the BBC, Nazarbayev said, "Just as we supported the construction of the Baku-Ceyhan oil pipeline at the appropriate time, we are also ready, jointly with Russia, to take part in the construction of the Samsun-Ceyhan oil pipeline." Later that day, according to Reuters, Russian Prime Minister Vladimir Putin announced that Kazakhstan might supply oil to the pipeline. The project aims to provide a Bosphorus bypass for Russian and Kazakhstani oil to world markets. Turkish Econoff said Turkey's State Minister Faruk Celik stressed during a visit to Astana on November 17 the importance of relieving pressure on the Bosphorus caused by oil-tanker shipments.

A HISTORY OF THE SAMSUN-CEYHAN PIPELINE

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¶6. (U) On September 26, 2005, Italy's Eni and Turkey's Calik Enerji signed a Memorandum of Understanding to cooperate on the project. They completed a pipeline feasibility study in March 2006 and the Front-End Engineering Design Phase in 2007. On October 19 in Milan, Russia and Turkey signed an intergovernmental agreement to guarantee a stable regulatory framework and consent to the participation of Russian oil companies Transneft and Rosneft in the project. The pipeline, which is expected to cost more than \$2 billion, will be constructed, owned, and operated by the Trans-Anatolian Pipeline Company (TAPCO), a 50-50 joint venture of Eni and Calik Enerji incorporated in Turkey. The 550-km (340-mile) pipeline will have a maximum capacity of 1.5 million barrels a day. Eni Chief Executive Officer Paolo Scaroni has said oil from the Kashagan and Karachaganak fields in Kazakhstan could be used to fill the pipeline. (NOTE: Eni owns 16.67% of Kashagan and 32.5% of Karachaganak. END NOTE).

THE YALTA PROTOCOL

¶7. (U) Meeting in Yalta on November 20, Russian Prime Minister Vladimir Putin and Kazakhstani Prime Minister Karim Masimov witnessed the signing of a protocol to study plans for the Samsun-Ceyhan pipeline. Russian Energy Minister Sergei Shmatko announced the protocol, which amends an oil transit agreement of June 7, 2002. "We have amended our plans in the protocol," he said. "We amended the projected oil balance for the next few years, the routes of transportation, and it is an essential piece of news that the words 'Samsun' and 'Ceyhan' are appearing in our relations for the first time."

RUSSIA READY TO DEAL WITH TURKEY

¶8. (SBU) On November 23, Arman Darbayev, Director of the Oil Transportation Department at national oil company KazMunaiGas (KMG) told Energy Officer that KMG was not directly involved in preparing the Yalta protocol. He suggested that the decision was political, not economic, and was made at the highest levels of government. Darbayev speculated that Russia switched its support from the Bourgas-Alexandropolis oil pipeline project to Samsun-Ceyhan, because "the Turks are easier to deal with than the Bulgarians, and they are ready to do business. They are ready to invest their own

capital, work with all partners, and move quickly to the construction phase." Darbayev said that Kazakhstani crude from the Caspian Pipeline Consortium (CPC) pipeline would likely flow through Samsun-Ceyhan instead of Bourgas-Alexandropolis, despite the fact that CPC members have a vague commitment to ship through Bourgas-Alexandropolis. He also suggested that Russia will want to take an equity stake in the Samsun-Ceyhan project, as would Kazakhstan.

19. (SBU) COMMENT: Although the Samsun-Ceyhan pipeline is well past the design phase, many unanswered questions about the project remain. It is unclear whether Russia or Kazakhstan will take an equity position in the consortium, what volume of crude they (or international oil companies) will commit to the pipeline, and how the pace of construction might be affected by other oil pipeline projects, such as the planned expansion of the CPC, expansion of Baku-Tbilisi-Ceyhan (BTC), and construction of Bourgas-Alexandropolis. However, all parties agree on the need for additional transportation capacity to deliver increased volumes of crude from Kazakhstan to world markets. The situation will become acute if CPC and BTC are not expanded to accommodate increased production from Tengiz and Kashagan in 2013. Russia's role in the Samsun-Ceyhan pipeline project is also well worth watching, particularly if state-controlled companies Transneft and Rosneft take an equity stake in the consortium. That could give Russia the ability to influence tariffs, volumes, and markets for Kazakhstani oil, which would undercut Kazakhstan's efforts to diversify export routes. END COMMENT.

SPRATLEN